



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the Ramotshere Moiloa Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Ramotshere Moiloa Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ramotshere Moiloa Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, irregular and fruitless and wasteful expenditure

8. As disclosed in note 45 to the financial statements, unauthorised expenditure of R90 954 904 was incurred in the current year.
9. As disclosed in note 46 to the financial statements, fruitless and wasteful expenditure of R1 454 043 for the current year and R1 580 903 from prior years has not yet fully been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 47 to the financial statements, irregular expenditure of R21 736 850 for the current year and R45 060 341 from prior years has not yet been fully dealt with in accordance with section 32 of the MFMA.

Material losses

11. As disclosed in note 28 to the financial statements, material impairments of R13 301 987 and R29 539 209 were incurred due to the write off and provision for irrecoverable consumer debtors.
12. As disclosed in note 50 to the financial statements, material losses of R12 187 937 (2014: R10 428 620) were incurred as a result of electricity distribution losses.

Restatement of corresponding figures

13. As disclosed in note 41 and 42 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during the year ended 30 June 2015 and reclassifications made in the financial statements of the Ramotshere Moiloa Local Municipality at, and for the year ended, 30 June 2014.

Significant uncertainties

14. With reference to note 39 to the financial statements, the municipality is the defendant in a number of legal matters. The municipality is contesting these claims. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Additional matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.



Unaudited supplementary schedules

17. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Development priority 2: Financial viability on pages x to x
 - Development priority 3: Service delivery and infrastructure investment on pages x to x
20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
21. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the selected development priorities are as follows:

Development priority 2: Financial viability

Usefulness of reported performance information

24. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives in the annual performance report were not consistent with those in the approved IDP. This was due to a lack of effective oversight over the IDP processes relating to this developmental priority.

Reliability of reported performance information

25. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the



reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Development priority 3: Service delivery and infrastructure investment

Reliability of reported performance information

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Additional matters

27. I draw attention to the following matters:

Achievement of planned targets

28. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs x to xx of this report.

Unaudited supplementary information

29. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon.

Compliance with legislation

30. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

31. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring, measurement, review and reporting and how it is conducted, organised and managed, as required by section 38 of the MSA and regulation 7 of the Municipal Planning and Performance Management Regulations (MPPMR).

Annual financial statements and annual reports

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.



33. The 2013-14 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Budgets

34. The total unforeseen and unavoidable expenditure incurred exceeded the greater of R5 million or 4% of own revenue, in contravention of regulation 72 of the Municipal Budget and Reporting Regulations.

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

37. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulations 17(a) and (c).
38. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
39. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
40. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
41. Awards were made to providers who are in the service of other state institutions or whose directors are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Consequence management

42. Not all unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA. Due process is ongoing concerning these investigations.
43. Allegations of financial misconduct laid against officials of the municipality were not all investigated in accordance with the requirements of section 171(4)(a) of the MFMA and regulation 5(1) of the Municipal regulations on financial misconduct procedures and criminal proceedings.

Environmental matters

44. The municipality did not exercise its legislative and executive authority as required by the sections 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.



45. The municipality operated its wastewater treatment facilities without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
46. The municipality's operational activities at its waste disposal sites and failed to comply with the requirements of a waste management license as set out in sections 67(1)(f) and (h) of the NEMWA and sections 151(1)(c) and (i) of the NWA.
47. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c), (d) and 26(1)(b) of the NEMWA.

Internal control

48. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

49. Leadership did not ensure that all policies and procedures were implemented to enable and support the understanding and execution of internal control objectives, processes, and responsibilities. Existing internal controls, including IT systems did not allow management to ensure adequate monitoring of financial and performance information resulting in misstatements identified in the financial statements and annual performance report and material deviations from legislation.

Financial and performance management

50. Management failed to implement effective controls to ensure that all information in the financial statements and the annual performance were reliable before submission for audit. Management could not provide evidence in support of the information presented in the quarterly performance reports and material deviations from compliance with legislation has been identified.

Governance

51. The audit committee and internal audit fulfilled their functions, however, management did not adequately respond to the concerns raised by the audit committee, and did not implement all the recommendations made by internal audit resulting in the internal control environment over financial and performance information and compliance with laws and regulations being ineffective.

Auditor General

Rustenburg

30 November 2015



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